

Message Text

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ACTION AGR-08

INFO OCT-01 EUR-12 IO-13 ISO-00 AID-05 CEA-01 CIAE-00

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4575

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

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PASS AGRICULTUREM

E.O. 11652: N/A

TAGS: EAGR UK

SUBJECT: IMPLICATIONS OF EUROPEAN DROUGHT

REF: STATE 194278

BEGIN SUMMARY. CHIEF UK WORRY ABOUT DROUGHT IS ITS
EFFECT ON INFLATION. BRITISH LIVESTOCK FARMERS FACED
WITH COST-PRICE SQUEEZE AND PASTURE SHORTAGE, POOR CROPS
WINTER FEED AND POSSIBLE FURTHER FALL IN STERLING WILL
RAISE COSTS. GREEN POUND DEVALUATION MAY BE NECESSARY
TO RAISE FARMERS' PRICES. HIGHER RETAIL PRICES OF MILK
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AND VEGETABLES INEVITABLE THIS FALL. HMG IS CERTAIN TO

RESIST STRONGLY ANY MOVES IN CAP LIKELY FURTHER TO RAISE
UK CONSUMER PRICES. END SUMMARY.

1. UK DROUGHT HAS CUT GRAIN PRODUCTION BUT MORE
IMPORTANTLY CAUSED SEVERE SHORTAGE GRAZING AND SEVERELY
DAMAGED CROPS OF OTHER FEEDS SUCH AS KALE, FEED ROOTS,
FEED BEANS. DAIRY FARMERS ALREADY USING HAY AND
SUPPLEMENTS NORMALLY KEPT FOR WINTER. HIGHER COSTS
INEVITABLE AND MILK PRICE WILL IN ANY CASE RISE ONE
PENNY PER PINT FROM SEPTEMBER 5 AS RESULT OF CUT IN
CONSUMER SUBSIDY. DROUGHT'S EFFECT ON PRICES OF
POTATOES AND VEGETABLES NOW BEGINNING TO SHOW. MAJOR
THREAT IS TO CONTAINMENT OF INFLATION NOW AT ANNUAL RATE
OF 12.9 PERCENT AS AGAINST NEAR 30 PERCENT THIS TIME
LAST YEAR. INFLATION TARGET NOW JEOPARDISED BY PROSPECT
OF HIGHER FOOD PRICES BECAUSE OF DROUGHT.

2. INCOMES STILL SEVERELY CURTAILED BY GOVERNMENT-
UNION AGREED RESTRAINTS AND PURCHASING POWER IS TIGHT.
MEAT PRODUCERS FACING COST-PRICE SQUEEZE AS SPENDING ON
MEAT FALLS AS PRICES RISE. HMG MAY BE FORCED TO HELP
LIVESTOCK-DAIRY SECTOR THROUGH GREEN POUND DEVALUATION
DESPITE INFLATIONARY IMPACT.

3. POSSIBLE FURTHER FALL IN STERLING IN LATE SUMMER
COULD RAISE PRICES IMPORTED FEED AND FOOD IRRESPECTIVE
OF DROUGHT.

4. COMBINATION OF THESE FACTORS THREATENS NOT ONLY ANTI-
INFLATION POLICY BUT ALSO THE BASIS OF THAT POLICY:
UNION-GOVERNMENT AGREEMENT ON WAGE RESTRAINT.

5. HMG CAN THEREFORE BE CONFIDENTLY EXPECTED TO RESIST
ANY EC MOVES WHICH WILL RAISE PRICES FURTHER, EG. TAX
ON VEGETABLE OILS, OR RAISE FARM COSTS FOR LIVESTOCK
SECTOR EG. HIGHER GRAIN PRICES, EXTENSION OF NFDM
INCORPORATION SCHEME. FURTHERMORE, ANY MOVES TO
RESTRICT SUPPLIES OR RAISE PRICES IMPORTED FEED MATERIALS
FROM THIRD COUNTRIES WILL MEET UK RESISTANCE,
ESPECIALLY SINCE WEAKNESS OF POUND WILL IN ANY CASE BE
LIABLE TO RAISE STERLING PRICES OF THESE IMPORTS.
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